



OFFICE OF THE GOVERNOR

PR02: 455
FOR IMMEDIATE RELEASE
08/23/2002

GOVERNOR DAVIS CALLS FOR TOUGH CORPORATE ACCOUNTABILITY REFORMS 08/23/2002

*Backs Three Bills, Toughens Penalties, Takes Action Against Arthur Andersen,
Appoints Consumer Representative to Accounting Board*

Culver City

Governor Gray Davis today announced a series of reforms and signed three bills designed to strengthen California's corporate accountability laws, already the toughest in the nation.

"I believe in free enterprise," said Gov. Davis. "But I also believe that a healthy free enterprise system requires a system of checks and balances which protects investors and stabilizes the market. When corporate fraud becomes corporate failure, real people get hurt. 'Free market' does not mean free from ethical standards."

The reforms, which also include increased criminal fines and prison terms for securities law violations, are designed to boost investor confidence and protect consumers from corporate and accounting irregularities. The Governor's initiatives and endorsement of legislative proposals are designed to complement federal legislation, the Sarbanes-Oxley Act of 2002, authored by U.S. Senator Paul Sarbanes (D-Md.) and U.S. Rep. Mike Oxley (R-Ohio).

The cornerstone of the initiatives is an increase in prison terms for criminal violations of the securities law that will complement federal law. At the Governor's direction, the Department of Corporations will seek sanctions for securities law violations.

- The criminal fine for general securities law convictions would increase from \$1 million to \$5 million, with prison terms ranging from one to five years; and
- The criminal fine for securities fraud convictions would increase from \$10 million to \$25 million, with prison terms of 2, 3, or 5 years rising to 5, 10, or 20 years.

Gov. Davis also signed three bills:

- AB 2873, by Assemblymembers Dario Frommer (D-Los Feliz) and Lou Correa (D-Anaheim), requires audit documents and records to be retained for a minimum of seven years. It also specifies information standards for audit documents and prohibits intentional document destruction. Also included is a provision that creates a "rebuttable presumption," meaning that failure to meet the state standards constitutes unprofessional conduct and allows for the punishment of violators with license discipline;
- AB 270, by Assemblymember Lou Correa (D-Anaheim) and Senator Liz Figueroa (D-Fremont), makes California the first state in the nation to have a public-member majority on the Board of Accountancy. It also beefs up provisions of state accounting laws, including requiring mandatory reporting of civil judgements, as well as settlements and arbitration awards of \$30,000 or more. The bill eases the standard for taking enforcement action against accountants for repeated violations, granting the Board direct subpoena power and requiring mandatory reporting of restatements of financial statements; and
- AB 2970, by Assemblymember Howard Wayne (D-San Diego), prohibits any employee of an accounting firm from working for a client within 12 months of providing audit services.

Gov. Davis also announced the establishment of an interagency task force that will review the implementation of the new federal corporate accountability law. Headed by State and Consumer Services Agency Secretary Aileen Adams and Business, Transportation, and Housing Agency Secretary Maria Contreras-Sweet, the task force will issue a development plan for the legislation within the 180 days required by the new federal law. The task force will also provide further recommendations to Gov. Davis for improving corporate governance and investor protection in securities and accounting professional laws.

Investor rights and enforcement will be promoted by a new public education campaign. It will include a new Web site on investing information and investor resource contacts maintained by the Department of Corporations as well as a toll-free reporting line and referral service (1-866-ASK-CORP/866-275-2677).

In addition, Gov. Davis announced that the California Board of Accountancy is seeking to revoke the license of Arthur Andersen LLP, prohibiting the firm from the practice of public accountancy in California. The Board filed the accusation on Friday, August 16.

"California consumers have an expectation of protection from corporate misconduct," Gov. Davis said. "This quick and decisive action by the California Board of Accountancy sends an important signal to enterprises that might skirt the law, or engage in unethical business practices. Corporate misdeeds will not be tolerated in California."

Last Friday, the state of Texas revoked Arthur Andersen LLP's license. Within an hour of receiving this information, the California Board of Accountancy filed the formal action to revoke the firm's license under California Accountancy Act (Business and Professions Code Section 5100), which allows California to revoke a license based upon disciplinary action imposed by another state, governmental body or agency.

The Board had previously notified Andersen that its effort to voluntarily surrender its license would not deprive the Board of its authority to discipline the firm. The Board's calls to obtain information regarding office closures, work force downsizing or how clients can retrieve financial materials have not been responded to by the firm.

Arthur Andersen LLP was first licensed in California in 1946 and it has 10 offices around the state.

Gov. Davis announced the appointment of Gail K. Hillebrand, as a member of the Board of Accountancy.

Ms. Hillebrand, 46, of Albany, has been an attorney with the Consumers Union of U.S., Inc., since 1985. She has served that organization as a staff attorney, Litigation Counsel and Senior Attorney. Prior to that, Ms. Hillebrand was an associate with a private law firm from 1982 to 1985 and clerked for the U.S. Court of Appeals, Ninth Circuit Justice Robert Boochever from 1981 to 1982. She has been a member of the Board of the California Reinvestment Committee since 1992, a member of the American Law Institute since 1996, a member of the Board of the Public Interest Law Project since 1998, and an Observer to the National Conference of the Commissioners on Uniform State Laws from 1992 to 2000. Ms. Hillebrand earned a bachelor of arts degree from the University of California, San Diego, and a juris doctorate degree from Boalt Hall School of Law.

The mission of the Board of Accountancy is to protect the public welfare by ensuring that only qualified persons are licensed and that appropriate standards of competency and practice are established and enforced. Members do not receive a salary. This position does not require Senate confirmation.